SaskTel

Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2008

SecurTek Monitoring Solutions Inc. (SecurTek)
www.securtek.com

SecurTek, a wholly-owned subsidiary of SaskTel, provides commercial and residential security monitoring service to customers in Saskatchewan, Alberta, Manitoba, British Columbia, Ontario, and Nova Scotia from their state-of-the-art fully redundant monitoring centre in Yorkton, Saskatchewan. Operating a security monitoring center leverages SaskTel's call centre, network management and process expertise to provide value added services. Through their dealer program, SecurTek partners with 96 independently-owned firms including retail, wholesale and servicing dealers who provide security sales and service expertise to their customers. Fifteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 110 people including 99 at their head office in Yorkton.

President's Message

SecurTek continues to be a Saskatchewan success story. Today, SecurTek is the largest security monitoring company in Saskatchewan serving over 67,000 residential and commercial customers from our base in Yorkton, Saskatchewan. With revenues reaching over $18 million for 2008 representing an increase of $1.4 million over 2007, SecurTek's financial position is strong and improving. Not only does SecurTek provide annual salaries and wages of $3.6 million into the local economy at our head office location, our positive role in the economy reaches beyond Yorkton. Through our established dealer program, we partner with 96 independently-owned firms, including retail dealers, wholesale dealers, and servicing dealers. Fifteen of the dealers are Saskatchewan based firms, and each of them prospers from the relationship, providing income and employment opportunities across the province.

SecurTek is well positioned to thrive in the monitoring industry's competitive market. Our ability to adapt to new technologies, the strength of our dealer network of independent local businesses, the skill and dedication of our employees, and our financial stability as a SaskTel subsidiary all ensure continued success for SecurTek.

I would like to thank our dedicated employees and management team, our authorized dealers and especially our customers for their contributions in making 2008 a successful year.



Barry Rogers
President and Chief Operating Officer, SecurTek Monitoring Solutions

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AUDITORS' REPORT

To The Member's of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of SecurTek Monitoring Solutions Inc. as at December 31, 2008 and the consolidated statements of operations and comprehensive income, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 30, 2009

KPMG LLP, is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

Consolidated Statement of Operations and Comprehensive Income

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating revenues	$18,200	$16,808
Operating expenses		
Operations	10,867	10,108
Depreciation and amortization	5,967	5,525
	16,834	15,633
Income from operations	1,366	1,175
Interest expense	595	638
Net income	771	537
Other comprehensive income	-	-
Comprehensive income	$771	$537

See Accompanying Notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2008	2007
Deficit, beginning of year	$(2,665)	$(3,202)
Net income	771	537
Deficit, end of year	$(1,894)	$(2,665)

See Accompanying Notes

SecurTek Monitoring Solutions Inc.

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2008	2007
Assets		
Current assets		
Cash	**$1,975**	$585
Accounts receivable (Note 11a)	**1,468**	1,411
Current portion of financing leases receivable (Note 5)	**634**	500
Inventory	**3**	28
Prepaid expenses	**135**	128
	4,215	2,652
Financing leases receivable (Note 5)	**1,046**	890
Property, plant and equipment (Note 6)	**2,028**	1,949
Customer accounts (Note 7)	**24,515**	26,378
	$31,804	$31,869
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 11a)	**$673**	$867
Services billed in advance	**861**	1,103
Current portion of long-term debt (Note 8)	**-**	1,629
	1,534	3,599
Long-term debt (Note 8)	**13,566**	12,337
	15,100	15,936
Shareholder's equity		
Share capital and contributed surplus (Note 9)	**18,598**	18,598
Deficit	**(1,894)**	(2,665)
	16,704	15,933
	$31,804	$31,869

See accompanying notes

On behalf of the Board

Robert Watson

Dale Baron

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2008	2007
Operating activities		
Net income	**$771**	$537
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**5,967**	5,525
Net change in non-cash working capital (Note 11b)	**(187)**	(90)
Cash provided by operating activities	**6,551**	5,972
Investing activities		
Property, plant and equipment expenditures	**(582)**	(525)
Customer accounts	**(3,600)**	(4,994)
Cash used in investing activities	**(4,182)**	(5,519)
Financing activities		
Financing leases receivable	**(1,041)**	(1,110)
Payments received on financing leases receivable	**462**	665
Proceeds of long-term debt	**-**	369
Repayment of long-term debt	**(400)**	(1,176)
Contributed surplus	**-**	459
Cash used in financing activities	**(979)**	(793)
Increase (decrease) in cash	**1,390**	(340)
Cash, beginning of year	**585**	925
Cash, end of year	**$1,975**	$585

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) providing real time monitoring solutions in select markets in Canada.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Change in accounting policies

Effective January 1, 2008, the Corporation adopted the accounting recommendations for capital disclosures (Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535) in accordance with the transition provisions of the section. This section requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for financial instruments - disclosures (CICA Handbook Section 3862) and financial instruments - presentation (CICA Handbook Section 3863) in accordance with the transition provisions of the sections. These sections replace the existing disclosure and presentation recommendations contained in financial instruments – disclosure and presentation (CICA Handbook Section 3861). The new disclosure standards increase the disclosures related to financial instruments, and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Effective January 1, 2008, the Corporation adopted the accounting recommendations for inventories (CICA Handbook 3031). The new recommendations establish standards for the determination of the cost of inventories and the subsequent recognition as expense, including any write-down to net realizable value and reversals of previous write-downs for increases to net realizable value. There is no material impact on the Corporation's operating results as a result of implementing the new recommendations.

Note 3 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (GAAP).

Consolidation

The Corporation owns 100% of SecurTek Partnership No. 8 and SecurTek Partnership No. 9, non-operating entities.

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

Property, plant and equipment

Property, plant and equipment is recorded at cost, including materials, services and direct labour. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Plant and equipment	4 to 5 years
Customer premise equipment	10 years
Office furniture, equipment and leaseholds	3 to 5 years

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Customer accounts

Customer accounts acquired individually, with a group of other assets, or through the Corporation's authorized dealers are recorded at cost. Customer accounts are amortized using the straight line method over 5 or 10 years depending upon the anticipated life of the customer relationship. The Corporation annually reviews the amortization method and useful lives of customer accounts.

Revenue recognition

Revenues from the monitoring of alarm systems are recognized when services are provided. Installation revenue and financing income related to equipment leased to customers under direct financing leases are recorded as unearned financing income and amortized over the leased term. Financing income is calculated based on rates of interest implicit in the lease terms.

Employee future benefits

The Corporation has defined contribution plans providing pension benefits for its employees. Defined contribution plan costs are recognized as employees render services during the year.

Financial instruments

Upon initial recognition, financial instruments are measured at fair value and are classified as held-to-maturity, held-for-trading, available-for-sale, loans and receivables or other liabilities. Held-to-maturity assets are carried at amortized cost with amortized premiums or discounts and other than temporary losses due to impairment included in net income. Held-for-trading assets and liabilities are carried at fair value with any gains or losses included in net income. Available-for-sale assets are carried at fair value with revaluation gains or losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, and other liabilities are accounted for at amortized cost using the effective interest method. Transaction costs are included in

Notes to Consolidated Financial Statements

Note 3 – Summary of significant accounting policies, continued

the initial carrying value of the financial instrument except for held-for-trading instruments in which case they are expensed as incurred.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the carrying amounts of property, plant and equipment and underlying estimates of useful lives of depreciable assets, the recoverability of customer accounts and the underlying determinations of average customer account life, and the carrying amounts of accounts receivable and underlying provision for bad debts. Significant changes in the assumptions could materially impact the results reported in future periods.

Note 4 – Accounting policy developments

International Financial Reporting Standards (IFRS)

In February, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan at the Holdco level. An external advisor has been engaged by Holdco to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable.

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets". Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. This section also provides further information on the recognition of internally generated intangible assets (including research and development costs). As for the subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062, "Goodwill and Other Intangible Assets". The new section will become effective on January 1, 2009. The Corporation is currently evaluating the effect of the adoption of this new section on the financial statements.

Notes to Consolidated Financial Statements

Note 5 – Financing leases receivable

Customer financing on direct financing leases is provided for up to a five year period after which time the ownership of the equipment transfers from the Corporation to the customer.

	2008	2007
		(Thousands of dollars)
Financing leases receivable	$2,460	$2,004
Less unearned revenue	780	614
	1,680	1,390
Less current portion	634	500
	$1,046	$890

Note 6 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2008	2007
				(Thousands of dollars)
Plant and equipment	$5,497	$4,170	$1,327	$1,036
Customer premise equipment	930	287	643	821
Office furniture, equipment and leaseholds	712	654	58	92
	$7,139	$5,111	$2,028	$1,949

Depreciation and amortization for the year totalled $503,519 (2007 - $507,920).

Note 7 – Customer accounts

	Cost	Accumulated amortization	Net book value	
			2008	2007
				(Thousands of dollars)
Customer accounts	$56,121	$31,606	$24,515	$26,378

Amortization during the year totalled $5,463,853 (2007 - $5,017,100).

Notes to Consolidated Financial Statements

Note 8 – Long-term debt

	2008	2007 (Thousands of dollars)
Due to Holdco, unsecured, bearing interest at Holdco's borrowing rate of 1.55% (2007 – 3.85%) with no fixed repayment terms.	$369	$369
Due to Holdco, secured by all assets, bearing interest at 4.40%; repayable in monthly interest only payments of $48,388 (2007 - blended quarterly instalments of $550,184); due October 2013	13,197	13,597
	13,566	13,966
Less current portion	-	1,629
	$13,566	$12,337

Note 9 – Share capital and contributed surplus, and additional capital disclosures

a) Share capital and contributed surplus

	2008	2007 (Thousands of dollars)
Share capital		
Authorized - unlimited number of class A common shares Issued – 6,150,000 shares	$6,150	$6,150
Contributed surplus		
Balance, beginning of year	12,448	11,989
Contributions	-	459
Balance, end of year	12,448	12,448
	$18,598	$18,598

b) Additional capital disclosures

The Corporation's objectives when managing capital are to ensure adequate capital to support the operations and growth strategies of the Corporation, and to ensure adequate returns to the shareholder.

The capital structure is determined in conjunction with the shareholder based on the approved business plans.

Notes to Consolidated Financial Statements

Note 9 – Share capital and contributed surplus, and additional capital disclosures, continued

The Corporation monitors capital on the basis of the debt ratio. The ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt less cash. Capitalization includes net debt, share capital, contributed surplus and retained earnings at the period end.

The Corporation's strategy, which is unchanged from 2007, is to maintain a debt to equity ratio of below 45%.

The debt ratio is as follows:

	2008	2007
		(Thousands of dollars)
Total debt	**$13,566**	$13,966
Less: Cash	**1,975**	585
Net debt	**11,591**	13,381
Equity	**16,704**	15,933
Capitalization	**$28,295**	$29,314
Debt ratio	**41.0%**	45.6%

The Corporation is not subject to any externally imposed capital requirements.

Note 10 – Commitments and contingencies

Commitments

The future minimum payments under the operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2009	$153
2010	138
2011	76
2012	33
2013	-

The above payments include $258,930 for services with related parties.

Contingencies

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2008 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to Consolidated Financial Statements

Note 11 – Additional financial information

a) Balance sheet

	2008	2007
		(Thousands of dollars)
Accounts receivable		
Customer accounts receivable	$1,561	$1,504
Allowance for doubtful accounts	(93)	(93)
	$1,468	$1,411
Accounts payable and accrued liabilities		
Trade accounts payable and accrued liabilities	$434	$612
Payroll and other employee-related liabilities	214	234
Taxes payable	25	21
	$673	$867

b) Supplementary cash flow information

	2008	2007
		(Thousands of dollars)
Net change in non-cash working capital		
Accounts receivable	$(57)	$(88)
Inventory	24	(28)
Prepaid expenses	(7)	8
Accounts payable and accrued liabilities	(194)	35
Deferred revenue	47	(17)
	$(187)	$(90)
Interest Paid	$595	$638

Note 12 – Financial instruments

The Corporation's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, short-term obligations and long-term debt, which by their nature are subject to risks.

a) Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Notes to Consolidated Financial Statements

Note 12 – Financial instruments, continued

The following table represents the carrying amounts and fair values of financial assets and liabilities measured at fair value or amortized cost:

(Thousands of dollars)

Financial Instruments	Classification[1]	2008 Carrying Amount	2008 Fair Value	2007 Carrying Amount	2007 Fair Value
Financial Assets					
Cash	HFT	$1,975	$1,975	$585	$585
Accounts receivable	LAR	1,468	1,468	1,411	1,411
Financial Liabilities					
Accounts payable and accrued liabilities	OL	$673	$673	$867	$867
Long-term debt	OL	13,566	14,296	13,966	13,968

[1] Classification details are:
HFT – held-for-trading
LAR – loans and receivables
OL – other liabilities

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The fair values of the Corporation's long-term debt are estimated based on quoted market prices for the issues or for similar issues.

b) Interest rate risk

The Corporation is exposed to interest rate risk arising from fluctuations in interest rates on short-term obligations and long-term debt. However, due to the nature of the obligations and primarily fixed rate debt, interest rate risk has been assessed as minimal and is therefore not actively managed.

Interest rate risk on short and long-term liabilities are managed based on the refinancing needs of the Corporation using derivative financial instruments when deemed appropriate.

The average effective interest rate on the Corporation's long-term debt was 4.32% (2007 – 4.39%) as was the average interest rate on long-term debt.

c) Market risk

The Corporation is exposed to minimal market risk related to fair value adjustments due to the short-term nature of financial instruments classified as held-for-trading and measured at fair value.

d) Credit risk

The Corporation is exposed to credit risk through its cash and accounts receivable. Credit risk related to customer accounts receivable is minimized because of the large and diverse customer base covering many consumer and business sectors. The Corporation evaluates customer credit risk and limits credit availability when necessary, and pursuant to an agreement with Saskatchewan Telecommunications (SaskTel), the Corporation mitigates its credit risk from the Saskatchewan customers, by selling its receivables to SaskTel for a fee.

Notes to Consolidated Financial Statements

Note 12 – Financial instruments, continued

The carrying amount of financial assets represents the maximum credit exposure as follows:

	2008	2007
		(Thousands of dollars)
Cash	$1,975	$585
Accounts receivable	1,468	1,411
	$3,443	$1,996

The aging of customer receivables, which indicates potential impairment losses, is as follows:

	2008	2007
		(Thousands of dollars)
Current	$1,174	$1,128
30-60 days past billing date	112	164
61-90 days past billing date	32	27
Greater than 90 days past billing date	243	185
Total	$1,561	$1,504

Provisions for credit losses are maintained and regularly reviewed by the Corporation, based on an analysis of the aging of customer accounts. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	2008	2007
		(Thousands of dollars)
Allowance for doubtful accounts, opening balance	$93	$90
Accounts written off	(218)	(214)
Recoveries	2	1
Provision for losses	216	216
Allowance for doubtful accounts, closing balance	$93	$93

e) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

December 31, 2008	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
						(Thousands of dollars)	
Long-term debt	$13,566	$16,383	$293	$293	$955	$14,842	$-
Accounts payable and accrued liabilities	673	673	673	-	-	-	-
	$14,239	$17,056	$966	$293	$955	$14,842	$-

Notes to Consolidated Financial Statements

Note 12 – Financial instruments, continued

December 31, 2007

	Carrying Amount	Contractual cash flows	6 mths or less	7-12 mths	2 years	3-5 years	More than 5 years
						(Thousands of dollars)	
Long-term debt	$13,966	$16,381	$1,107	$1,107	$2,215	$7,000	$4,952
Accounts payable and accrued liabilities	867	867	867	-	-	-	-
	$14,833	$17,248	$1,974	$1,107	$2,215	$7,000	$4,952

Sufficient operating cash flows are expected to be generated to fund these contractual obligations.

Note 13 – Employee benefit plans

The Corporation has two defined contribution pension plans. The total cost for the defined contribution plans is equal to the Corporation's required contributions. The Corporation's 2008 pension cost and employer contributions are $111,848 (2007 - $123,864).

Note 14 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions, other than those noted below, with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2008	2007
		(Thousands of dollars)
Operating revenues	**$455**	$296
Operating expenses	**2,167**	1,624
Accounts payable and accrued liabilities	**42**	8
Accounts receivable	**826**	836

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.